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SENSITIVE
SIPDIS

STATE FOR WHA/CAR (RALVARADO)(VDEPIRRO)(WSMITH)
WHA/EPSC (MROONEY) (FCORNEILLE)
EEB/IFD/OMA
WHA/PPC (JGONZALEZ)
INR/RES (RWARNER)
INR/I (SMCCORMICK)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW
EXPORT IMPORT BANK FOR ANNETTE MARESH

E.O. 12958: N/A
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IBRD, IMF, TRYS, KRCM, JM, XL
SUBJECT: JAMAICA ON VERGE OF IMF STAND-BY AGREEMENT

REF: A. KINGSTON 551
[B](#). KINGSTON 521
[C](#). KINGSTON 517

[1](#)1. (SBU) SUMMARY: After months of negotiations, the Government of Jamaican (GOJ) is on the brink of signing a Stand-by Agreement with the International Monetary Fund (IMF). This disclosure was confirmed by lead IMF representative, Trevor Alleyne, at a meeting with the donor community held at Post on July 30. Alleyne told attendees that the GOJ had formally stated its intention to apply for an agreement and was working assiduously to have one in place by October. Alleyne, who was quizzed about the likely social impact of an IMF program, was at pains to explain that the Fund had changed its mode of operation and was now more sensitive to social and political imperatives. He explained that Jamaica is a sovereign country and, the IMF would not dictate the terms of an agreement. He said the IMF would be working with the GOJ to address the key macro-economic imbalances that have plagued the country. End Summary.

USD 1.2 Billion Over 2 years

[1](#)2. (SBU) Alleyne spoke to Emboffs and members of the international donor community, including representatives from United Nations Development Program (UNDP), UK Department for International Development (DFID), Canadian International Development Agency (CIDA), European Commission Delegation (ECD), United Nations Resident Coordinator (UNRC), Ministry of Finance, and the Public Service/European Commission Delegation (ECD). He said there was every indication that the IMF and the GOJ are moving quickly toward an agreement. He said the program, which could run from two to three years, could be put before the IMF Board as early as October. He said to maintain this tight timeline the negotiations would have to conclude by September. The GOJ has suggested that the country would be able to access up to USD 1.2 billion over a two-year period.

Fiscal Consolidation Targeted

[1](#)3. (SBU) Recognizing that Jamaica has been affected by decades of structural impediments, Alleyne noted that any new program must seek to address the key macro-economic imbalances over the medium term. He suggested that the approach should be to cherry-pick, rather than being broad-based, looking at the fundamentals and helping the government accordingly. In this regard, he pointed to the need for fiscal consolidation, which he said should be underpinned by

fundamental fiscal reform. He stated that the objective must be to tie everything into one coherent strategy to put fiscal policy on a sustainable footing through lower interest rates, which is part of the basis for investment and growth. He said part of the Fund's rule of engagement was therefore to look at the GOJ's plan for medium-term fiscal consolidation.

Here by Invitation

¶4. (SBU) Some members of the donor community expressed concern over the potential impact of an IMF agreement on the level of social services, fearing it could further worsen conditions for poorer Jamaicans. Alleyne reminded attendees that the IMF was invited to Jamaica because the country was suffering from balance of payments (BOP) problems due to declining earnings from tourism, bauxite, remittances and a lack of access to capital markets. He explained that Jamaica is a sovereign country, and as such the IMF was in no position to dictate policy prescriptions. He made it clear that the IMF and the GOJ agree on the main pillars of the macro-economic program. That said, he stated that everyone must appreciate that Jamaica's problems were not simple, and as such it was important that any solution be properly implemented. When asked about the possible conditions, he stated that he could not announce any conditions, as none had been decided.

IMF's Human Face

¶5. (SBU) He conceded that social stability had become important to the IMF following past experiences. He stated, "This is something that has damaged our reputation in the past and we remain cognizant of this fact." He continued, "Every recent program has a section explaining how the most vulnerable will be protected." To illustrate this point he explained that the IMF Board now ensures that measures are taken to protect the social safety net. He also drew the group's attention to an IMF article addressing the "IMF's Role in Helping Protect the Most Vulnerable in the Global Crisis." He did not attempt to downplay the dire economic situation in Jamaica, and pointed out that the GOJ must prioritize in this time of crisis and as such it cannot be all things to all people.

Spreading the Burden

¶6. (SBU) He noted that even though the IMF fully supports prioritizing social safety net programs, there must be adjustments, and the aim is to ensure that the burden is spread across society. (NOTE: The IDB representative Gerard Johnson announced that the GOJ has approached the bank for a USD 100 million loan to guarantee social safety net programs. The European Union Representative announced that his office is also providing a USD 45 million grant for budgetary support. End Note).

Debt Holders Accept Lower Rates?

¶7. (SBU) Critics voicing their opinions in local newspaper editorials, including the trade unions, remain bitterly opposed to an IMF program. They suggest that the burden of adjustment has traditionally been borne by the most vulnerable groups. Alleyne suggested that a key element of any program must be a sharing of the cost of adjustment (Reftels). Prime Minister (PM) Bruce Golding announced that terms were being worked out with banks and financial institutions, noting that a deal now hinges on whether financial institutions can convince clients to accept lower interest rates. In his continued bid to calm fears in the local capital market, Golding was quick to add that "we can't repudiate the debt, nor can we unilaterally alter the terms and conditions of the debt". For his part, Alleyne told attendees that in the final analysis the aim must be the restoration of macro-stability, preparing the path for enhanced growth in a sustainable manner. In this regard, he said there was no sense in negotiating a three year public sector wage freeze, only for wages to be ratcheted up with even more force at the end of the period.

Interest Rates Decline

¶18. (SBU) The impending IMF agreement, coupled with GOJ negotiations with creditors, appear to have provided the perfect platform for the Bank of Jamaica (BOJ) (Central bank) to start reducing rates. Within the space of a week, the BOJ cut rates by two hundred and fifty basis points (2.5 percentage points), effectively reducing debt servicing cost by almost USD 10 million. (Note: Every one percentage point decline in rates leads to an almost USD 4 million reduction in debt serving cost. End Note). The decline also was underpinned by stability in the local money market. The reduction also occurred against the background of moderating prices, with the inflation likely to fall below the original target of 11 to 14 percent. The decision also was prompted by lower demand for foreign exchange after an extended period of foreign exchange market instability.

Comment

¶19. (SBU) Jamaica is expected to conclude an IMF program when Alleyne and his team return to the country in September. Although the terms are not disclosed, from all indications some of the austerity measures anticipated by the public, such as massive job cuts and steep currency depreciation, might not materialize. PM Golding also has maintained that the health, education and security sectors are sacrosanct, leaving little room for major cuts in non-debt expenditures. As tax revenues continue to decline from the collapse of the bauxite sector and business contraction, it appears that the GOJ is banking on major interest rate concessions from its creditors to alleviate the current fiscal crisis.

¶10. (SBU) However, with financial institutions unlikely to convince clients to accept lower interest rates in the very short term, it would be surprising if the GOJ can negotiate a substantial reduction in rates by October. This leaves the GOJ little option but to further slash capital expenditures, and most likely the Prime Minister's constituency development fund, which was established to allow members of Parliament to finance development projects in their respective districts. GOJ coffers also may have to be augmented by proceeds from the planned sale of some state-owned assets. End comment.

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